

FOCUS ON TRANSFORMATION

Transform? Yeah, we're doing it!

Resolve. Flexibility. Hard work. Put it all together and what do you get? A transforming United States Postal Service. Look around you. Service performance is at record high levels. Productivity is on the upswing. And the new financial year is beginning on a note of optimism. You should be impressed, especially considering what a year it's been.

"What brought about the quick turnaround? In a word: focus!" says PMG Jack Potter. "In every area of the country, we focused on the core business and developed innovative solutions to move the mail." What a difference a Transformation Plan makes.

A year ago, events changed the world. And they changed USPS.

Business as usual? Not possible. But even before the terrorism of Sept. 11, anthrax attacks and mailbox-pipe bombings, it was clear changes were needed as USPS moves into the new century. A squishy economy in 2001 had bared fundamental flaws in the USPS business model. With little marketplace recourse, mail volumes were declining while delivery points were increasing. Time for some sweeping organizational changes.

USPS started at the top — reducing the number of officers by 20 percent. Eight hundred headquarters positions were eliminated. The field management structure was realigned and 20 percent of area offices were eliminated. USPS reduced

administrative staffing by 10 percent — another 2,000 positions in districts and plants across the country. And, with a mail volume decline of some 6 billion pieces, USPS focused on balancing the appropriate workhours against workload. It worked. Costs were reduced by more than \$2.5 billion. USPS is now operating with about the same number of career employees it had in 1995, yet it will be delivering 21 billion more pieces of mail to 12 million more addresses.

Know what? It's not over yet. "There is much, much more to be done," says Potter. It's called transformation. And, yeah, we can do it.

We are not alone

Nine million people work in the nation's \$900 billion mailing industry. Universal service connects 280 million people, 125 million households and 10 million businesses.

TRANSFORMATION PLAN... IN 100 WORDS OR LESS



Why transform?
Changing world.
Changing economy.
Changing customer needs. Slower growth. Rising costs. Fixed infrastructure costs. Merging of public and private operators into global networks. Increasing security concerns.

The Plan: A blueprint for action. Steps that must be taken now. Long-term options.
Meeting the challenge: Growth through added value to customers. Operational efficiency. Performance-based culture. Regulatory and legislative reform: Respond to customer

pricing needs. Optimize facility networks. Flexible, business-driven purchasing procedures. Labor and employment.
Big picture? Preserve the right of every American to send and receive mail.

READ IT AGAIN

A summary is a glass half full. Read the entire Transformation Plan yourself. It's online on Blue and www.usps.com.



Vince Sombrotto

NALC: FRIENDS OF TRANSFORMATION

Thanks and congrats from PMG Jack Potter to National Association of Letter Carriers (NALC) President Vince Sombrotto for his 50 years of service to the Postal Service and his leadership in NALC's support of transformation. At this month's Board of Governors meeting, Potter said Sombrotto

"was one of the early union leaders to understand that long-term postal success would require new approaches to the business." Potter announced that a joint USPS-NALC task force will explore opportunities for operational flexibility, new delivery service models and how to involve letter carriers in

generating revenue and growing the business.
"It is a new opportunity to bring our products to thousands of small- and medium-sized businesses," says the PMG.
Sombrotto is retiring later this year after 24 years as NALC president.

QUOTABLE

"The Transformation Plan is not just about the Postal Service. It's about all of us. We all have a stake in securing the future of universal mail service in America."

PMG Jack Potter



FY 2003: TEAM USPS ON OFFENSE

- Continue to improve service performance.
- Grow business and generate new revenue streams.
- Carefully manage finances to reduce costs.

USPS NEWS HARDCOPY

SPECIAL EDITION

OCTOBER 10, 2002

Show me the plan

Think of this as the postal version of a blue plate special. Whenever you hear about a new USPS product or service, a new initiative, or new procedure, or change in policy, ask yourself: "What does this have to do with transformation?" And you'll find the answer is: everything. If it's not in the plan, it's not on anybody's plate.

WHERE'S TRANSFORMATION? SHOW ME THE PLAN!

THE CONFIRM TRACKING SERVICE lets customers know when their letters or flats have traveled through various stages of the automated mailstream and provides USPS with useful operations data. It's available now by subscription.

IT'S IN THE PLAN: USE TECHNOLOGY TO ENHANCE VALUE.

THE POSTAL AUTOMATED REDIRECTION SYSTEM (PARS) is a next-generation automated system expected to reduce the handling and processing time associated with redirected mail.

IT'S IN THE PLAN: ENHANCE ALREADY EFFICIENT LETTER PROCESSING.

USPS IS UPGRADING AND MODERNIZING ITS INTRANET INFRASTRUCTURE through the Advanced Computing Environment (ACE). The initiative will save USPS up to \$200 million over five years by centralizing and reducing support functions for 130,000 computer users among some 28,000 postal facilities nationwide.

IT'S IN THE PLAN: DESIGN ENHANCED TECHNOLOGY INFRASTRUCTURE.

REDRESS is a voluntary program that uses mediation to resolve EEO (Equal Employment Opportunity) disputes in the workplace.

IT'S IN THE PLAN: IMPROVE LABOR/MANAGEMENT RELATIONS.

THE ADVANCED LEADERSHIP PROGRAM (ALP) is developing a pool of top-notch potential postal managers for the future through training and advanced education opportunities.

IT'S IN THE PLAN: ENSURE TRAINING AND DEVELOPMENT.

THE FINAL AUTOMATED FLAT SORTING MACHINE (AFSM) 100 was dedicated in San Antonio, TX — the 534th. The AFSM 100 program has enabled USPS to significantly improve productivity and control processing costs for flat mail.

IT'S IN THE PLAN: COMPLETE AUTOMATION OF FLATS PROCESSING.

DIVERSITY DEVELOPMENT, in partnership with Retail, will release a bilingual translation toolkit to selected markets nationwide. These will include translation cards featuring special service forms and receipts offered by USPS. Cards will be translated in both Chinese and Spanish.

IT'S IN THE PLAN: DEVELOP NEW RETAIL SERVICES THAT INCREASE CUSTOMER VALUE AND POSTAL REVENUE.

WELCOME TO THE NEXT GENERATION OF THE DOMESTIC MAIL MANUAL — the DMM. It's being transformed into a series of books that focus on the different needs of USPS customers — household and retail, small- and medium-size businesses and large business mailers. Take the mystery out of the mail.

IT'S IN THE PLAN: DESIGN RATES AND MAIL PREPARATION TO MATCH CUSTOMER CAPABILITIES AND NEEDS.

IT'S NEVER BEEN EASIER OR MORE CONVENIENT TO GET STAMPS. They're available from The Postal Store at www.usps.com or by calling 800-STAMP-24. Stamps also are available at thousands of ATMs, supermarkets, convenience stores and other retail outlets.

IT'S IN THE PLAN: MOVE SIMPLE TRANSACTIONS OUT OF POST OFFICES.

PURCHASING AND MATERIALS has been restructured. It's now called Supply Management, reflecting the success of supply chain management as a business strategy. With an eye on the bottom line, the new organization integrates supply and purchasing functions into a single process. It's saved us hundreds of millions of dollars already.

IT'S IN THE PLAN: EXPAND USE OF SUPPLY CHAIN MANAGEMENT

We could go on (because transformation initiatives are everywhere). But we think you get the picture. Don't you?

IT'S ABOUT CHANGE — BECAUSE WE HAVE TO.

Better NET than NOT

How does \$600 million in net income sound to you? That's the financial plan for FY 2003, according to Chief Financial Officer Richard Strasser. USPS revenue is projected to grow to \$70.4 billion. Mail volume is projected to grow a modest 1.9 percent to 205.7 billion pieces — still below FY 2000 volume levels. "We plan to reduce workhours by 30 million and reduce complement by another 12,000 employees, while at the same time adding 1.65 million daily deliveries," Strasser says. The budget includes about \$1 billion in cost reductions. FY 2003 is the second year in the Postal Service's five-year commitment to take \$5 billion out of its costs by 2006. And USPS is looking at its first reduction in debt since 1997 — to the tune of \$800 million.

A cautionary note: the \$600 million net income in FY 2003 is less than a 1 percent margin. If the economic recovery stalls, postal finances could experience a negative impact, says Strasser.

UNITED STATES
POSTAL SERVICE
475 LEHMAN Pl. SW Rm 10523
Washington DC 20260-3100

Presorted
First-Class Mail
Postage & Fees Paid
USPS
Permit No G-10

USPSNEWSHARDCOPY

PLEASE POST
ON SWING ROOM
BULLETIN BOARD

OCTOBER 10, 2002

USPSNEWSHARDCOPY

IN THIS ISSUE | SPECIAL EDITION

Transform? Yeah, we can do this

Transformation Plan... in 100 words or less

Show me the plan

NALC: FRIENDS OF
TRANSFORMATION **Better NET than NOT**